

Message Text

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C O N F I D E N T I A L STATE 051268

TOSEC 113

FOLLOWING SENT ACTION SECSTATE INFO BEIRUT DAMASCUS JIDDA
DHAHRAN FROM AMMAN FEB 2

QUOTE C O N F I D E N T I A L AMMAN 0794

E.O. 11652: GDS

TAGS: ENRG, JO

SUBJ: TAPLINE PROBLEMS IN JORDAN

REF: A. AMMAN 0619; B. BEIRUT 1360

1. TAPLINE REPRESENTATIVE DODGE CALLED AT THE EMBASSY PRIOR
TO A MEETING WITH GOJ REPRESENTATIVES TO DELIVER TAPLINE/
ARAMCO REPOSE TO GOJ PROPOSAL REPORTED REF A. ADDRESSEES
WILL RECALL THAT PRIME MINISTER RIFAI HAD OFFERED
\$10 MILLION PAYMENT "ON ACCOUNT" TO COVER ARREARS AND
EXPRESSED WILLINGNESS TO NEGOTIATE BOTH PAST AND FUTURE PRICES.
DODGE INFORMED EMBASSY THIS AMOUNT NOWHERE NEAR
SUFFICIENT AND THAT ARAMCO WAS NOT PREPARED TO NEGOTIATE ON
THIS BASIS. INSTEAD, ARAMCO IS ASKING PAYMENT OF \$50 MILLION
TO COVER OIL DELIVERED THROUGH 1974. BEGINNING WITH 1975, THE
PRICE WOULD BE \$11.75 PER BARREL, WHICH IS TAX RATE BEING CHARGED
ARAMCO BY SAUDI GOVERNMENT. DODGE SAYS ARAMCO'S
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BASIC POSITION IS THAT IT MUST OBTAIN FROM JORDAN WHATEVER

AMOUNT SAUDI'S TAKE IN TAXES. IN THIS CONNECTION, DODGE REITERATED COMMENT CONTAINED REF. B THAT HE THOUGHT IT WOULD BE COUNTERPRODUCTIVE FOR U.S. TO TAKE UP MATTER WITH SAUDIS.

2. INTERESTINGLY ENOUGH, ARAMCO'S PRESENT POSITION IS THAT IF JORDANIANS WILLING TO ACCEPT PRESENT LEVEL OF DELIVERIES, TAPLINE/ARAMCO WILL NOT INSIST ON NEGOTIATING SETTLEMENT AT THIS TIME. AT PRESENT, JORDAN TAKES 2300 TONS DAILY FROM TAPLINE. IT NEEDS APPROXIMATELY 600 TONS IN ADDITION TO MEET TOTAL DEMAND. IMPLICATION OF ARAMCO'S POSITION IS THAT IF JORDANIANS WOULD NOT INSIST ON ADDITIONAL PUMPING NEEDED FOR 600 TONS, THEY WOULD NOT PRESS FOR \$50 MILLION, AT LEAST FOR THE PRESENT.

3. SUBSEQUENT TO MEETING WITH MINISTERS OF SUPPLY AND FINANCE, DODGE REPORTED RESULTS OF DISCUSSION TO EMBASSY. HE INDICATED GOJ REPRESENTATIVE APPEARED SOMEWHAT SURPRISED THAT ARAMCO WAS NOT PREPARED TO ACCEPT GOJ \$10 MILLION OFFER, SINCE IT WAS NOT COUPLED WITH ANY SPECIFIC FORMULA FOR RESOLVING PROBLEM. DODGE TOLD THEM HE DID NOT HAVE VERY GOOD ANSWER ON THIS SCORE, BUT THAT WAS THE COMPANY POSITION.

4. DODGE SAID JORDANIANS INDICATED THEY MIGHT POSSIBLY GO TO SAUDIS FOR HELP, BUT BASED ON THEIR APPARENT RELUCTANCE, HE DOUBTED THEY WOULD DO SO FOR PRESENT (BUT SEE PARA 7).

5. DODGE ALSO REPORTED THAT HE INFORMED JORDANIANS THAT TAPLINE MIGHT HAVE TO CEASE OPERATIONS SINCE IT IS LOSING MONEY AT THIS POINT. VERY LITTLE OIL IS BEING PUMPED THROUGH LINE EXCEPT FOR JORDANIAN AND LEBANESE REFINERIES SINCE VERY LITTLE IS BEING SHIPPED FROM SIDON. CONSEQUENTLY, UNLESS SOME WAY CAN BE FOUND TO MAKE LINE PROFITABLE, IT MAY WELL BE CLOSED DOWN.

6. SUBSEQUENT TO DISCUSSIONS WITH DODGE REPORTED PARAS ABOVE, PRIME MINISTER HAS GOTTEN IN TOUCH WITH AMBASSADOR. HE REPEATED ESSENTIALLY WHAT DODGE HAS TOLD US -- THAT TAPLINE HAS TURNED DOWN JORDANIAN OFFER OF \$10MILLION ON ACCOUNT AND PURSUIT OF EFFORT TO NEGOTIATE OUT DIFFERENCES. HE BELIEVES
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THAT TAPLINE FIGURE OF \$50M IS HIGHLY INFLATED ON BASIS OF PRESENT LEVEL OF TAXES PAID TO SAUDI ARABIS AND DOES NOT REPRESENT REAL PAYMENTS WHICH TAPLINE MAY HAVE MADE OR MAY HAVE TO MAKE IN SETTLEMENT WITH SAUDIS. IN ANY EVENT, HE SAYS THAT ALL HE CAN PAY NOW IS \$10.M. HE REPORTS THAT DODGE SAID HE BELIEVED WHAT RIFAI HAD TO SAY ABOUT CAPACITY TO PAY AND WOULD REPORT JORDANIAN REACTION

TO HIS COMPANY AND BE BACK IN A FEW DAYS WITH ANSWER.

7. RIFAI WANTS NEXT TO MEET WITH SAUDIS TO SEE WHETHER HE CAN PERSUADE THEM TO EXEMPT FROM TAXATION TONNAGE REGULARLY DELIVERED TO JORDAN VIA TAPLINE, OR ALTERNATIVELY, TO PAY THE FULL AMOUNT AND SEEK A SAUDI REBATE. HOWEVER, HE CANNOT SEND ANYONE AT SUFFICIENTLY HIGH LEVEL TO GET SAUDI ATTENTION UNTIL END OF FEBRUARY. MEANWHILE, HE IS CONCERNED THAT JORDAN WILL HAVE TO RESTRICT ITS REFINING CAPACITY BECAUSE CRUDE STOCKS WHICH HAVE BEEN DRAWN ON TO MEET ADDITIONAL REQUIREMENTS WHICH TAPLINE WILL NOT PROVIDE WILL BE EXHAUSTED BY 13 FEBRUARY. HE NOTES IT IS AN UNFORTUNATE CONJUNCTION IN TIMING WITH SECRETARY'S PLANNED VISIT TO THE AREA. HE ASKS IF THERE IS ANYTHING WE CAN DO OF A POSITIVE CHARACTER TO GET SITUATION OFF DEAD CENTER. HE NOTES THAT FOR OUR INFORMATION ONLY HE CAN BEGIN TO DRAW DOWN ON MILITARY'S STRATEGIC RESERVES OF REFINED PRODUCT WHICH MAY THEN CARRY HIM FOR FOUR TO SIX WEEKS, BUT WHICH WILL TAKE MORE THAN SIX TO EIGHT MONTHS TO BUILD BACK UP AGAIN.

8. FINALLY, HE SAYS THAT WHILE DODGE SEEMS PREPARED TO CONTINUE THE BASE FLOW AND LET THE WHOLE QUESTION DRIFT, HE KNOWS FROM HIS OWN ENGINEERS THAT BY SOME SLIGHT RESTRICTION OF CONTROL VALVES IN THE LINE, DELIVERIES TO JORDAN CAN BE INCREASED TO REQUIRED SIX HUNDRED TONS WITHOUT ADDITION OF BOOSTER PUMP. IN ANY EVENT, IF SUCH A PUMP IS REQUIRED, JORDAN IS PREPARED TO PAY FOR IT.

9. COMMENT: WHILE WE ARE NOT IN POSSESSION OF ALL THE FACTS, LATEST DODGE VISIT SEEMS TO BE ONLY MOST RECENT
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EPISODE IN EXTREMELY CONFUSING PICTURE.
FAILURE TO DELIVER EXTRA TONNAGE TO JORDAN, RIFAI CLAIMS, IS BREACH OF AGREEMENT AND HE UNDERSTANDS THAT HE CAN THEN ORDER ADDITIONAL REFINED PRODUCTS AT TAPLINE'S EXPENSE. HE CONCLUDES THAT WHAT TAPLINE IS INTERESTED IN IS SECURING MAXIMUM AMOUNT OF MONEY FROM JORDAN AND THEN SHUTTING DOWN LINE. HE SAYS INITIAL COSTS HAVE LONG SINCE BEEN AMORTIZED BY TAPLINE AND EVERYTHING THEY CAN COLLECT IS PURE PROFIT. HE CLAIMS THAT WHILE SAUDIS HAVE NOT APPARENTLY ACTUALLY INDICATED INTEREST IN TAKING OVER TAPLINE, COMPANY MAY WELL BE WORRIED BY THIS PROSPECT AND ALSO BY FACT THAT NO OIL IS MOVING FROM SIDON AND HAVE CONCLUDED THAT DEMAND ON JORDAN IS BEST WAY TO REALIZE WHATEVER THEY CAN BEFORE INEVITABLE STRIKES.

10. JORDANIANS OF COURSE WOULD BE EXTREMELY HARD HIT BY CUT-OFF OF CRUDE FROM TAPLINE, AS INDEED THEY ARE BEING HIT BY FAILURE TO PROVIDE FOR THEIR FULL NEEDS. END COMMENT.

11. ACTION REQUIRED: WE WOULD BE GRATEFUL FOR ANY FURTHER INFORMATION WHICH JIDDA, DHAHRAN, OR BEIRUT MAY BE ABLE TO SUPPLY. WHILE WE ARE IN NO POSITION TO JUDGE LEGAL AND EQUITY MERITS OF CASE, WE ARE CONCERNED ABOUT IMPLICATIONS OF U.S. FIRM BEING RESPONSIBLE FOR CUTTING INTO JORDANIAN RESERVES AND HENCE DEFENSE CAPABILITY; WE FEEL ALSO THAT SAUDIS WOULD SHARE THIS CONCERN. FINALLY, DODGE HAS TOLD US HIS REQUEST THAT WE NOT GO TO SAUDIS ABOUT THIS PROBLEM IS PARTLY PREDICATED ON BELIEF THAT SAUDIS WILL MERELY ORDER TAPLINE TO DELIVER OIL WITH NO SHIFT IN THEIR TAX POSITION OR TOWARD RESOLVING OUTSTANDING ISSUES WITH JORDAN. HOWEVER, NOW THAT RIFAI IS RESOLVED ON RAISING ISSUE WITH SAUDIS, WE BELIEVE DEPARTMENT, AFTER A FULL LOOK AT FACTS, SHOULD CONSIDER WHETHER OR NOT: (1) EMBASSY AMMAN SHOULD BE INSTRUCTED TO RESPOND TO PRIME MINISTER ALONG LINES THAT OUR PRESENT INTEREST IS IN SEEKING SPEEDY, EQUITABLE AND AMICABLE SETTLEMENT OF DISPUTE AND THAT WE ARE APPROACHING TAPLINE ALSO IN THIS SENSE; (2) DEPARTMENT APPROACH TAPLINE PARENT
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COMPANIES WITH SAME STATEMENT, TOGETHER WITH INDICATION OF CONCERN ABOUT POSSIBLE SERIOUS EFFECTS ON JORDAN STEMMING FROM CURRENT DISAGREEMENT; AND (3) EMBASSY JIDDA APPROACH SAUDI GOVERNMENT WITH A PARALLEL INDICATION OF CONCERN, POSSIBLY IN CONJUNCTION WITH OR FOLLOWING ANY JORDANIAN INITIATIVE WITH SAUDIS. WE WOULD OBVIOUSLY BE INTERESTED IN INFO POSTS COMMENTS ON WHETHER SUCH STEPS MIGHT BE HELPFUL IN ACHIEVING OBJECTIVES NOTED ABOVE.
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